

Matt Blunt
Governor



Larry W. Schepker
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Thomas J. Sadowski
Director

January 9, 2009

The Honorable Matt Blunt
The Honorable Members of the Legislature
Citizens of the State of Missouri

In accordance with generally accepted accounting principles, I submit to you the Comprehensive Annual Financial Report of the State of Missouri for the fiscal year ended June 30, 2008. This report was prepared by the Office of Administration, Division of Accounting, whose management is responsible for its contents.

The report is prepared to show the financial position and operating results of the State. The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit. We believe the data presented is accurate in all material respects and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial activities have been included.

An annual audit of the basic financial statements is completed each year by the State of Missouri Auditor's Office. The State Auditor conducts the audit in accordance with generally accepted government auditing standards, and her opinion has been included in this report. The State Auditor conducts a "Single Audit" of all federal funds in accordance with the Federal Single Audit Act of 1984, and the U.S. Office of Management and Budget Circular A-133, "Audit of State and Local Governments and Non-Profit Organizations."

A narrative introduction, overview, and analysis of the basic financial statements is presented in the *Management's Discussion and Analysis (MD&A)* section of this report. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Missouri was organized as a territory in 1812 and was the second state (after Louisiana) of the Louisiana Purchase to be admitted to the Union. Statehood was granted on August 12, 1821, making Missouri the 24th state. The State encompasses 68,945 square miles.

The State operates under three branches of government: executive, legislative, and judicial. The executive branch consists of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, and Attorney General. The legislative branch consists of 34 members of the Senate, and 163 members of the House of Representatives. The judicial branch is a three-tier court system: the Supreme Court, the State's highest court, has statewide jurisdiction; a court of appeals that consists of districts established by the General Assembly; and a system of circuit courts that has original jurisdiction over all cases and matters, civil and criminal.

The State provides a range of services in the areas of agriculture, education, health and social services, transportation systems, public safety, law enforcement, judicial systems, economic development, conservation and natural resources, labor relations, and general administration.

The State operates on a legally adopted budget in order to ensure compliance with legal provisions embodied in the annual appropriated budget passed by the General Assembly and approved by the Governor prior to the beginning of the fiscal year. If appropriations are not sufficient for a fiscal year, supplemental amounts are requested during the next legislative session by the same process that original appropriations are requested. Budgetary control is maintained at the departmental level. Expenditures cannot exceed the appropriation amount at the individual appropriation level. Also, the Governor has the authority to reduce the allotments of appropriations in any fund if it appears that the revenue estimate will not be met. Unexpended appropriations lapse at the end of each appropriation year, unless reappropriated to the following appropriation year.

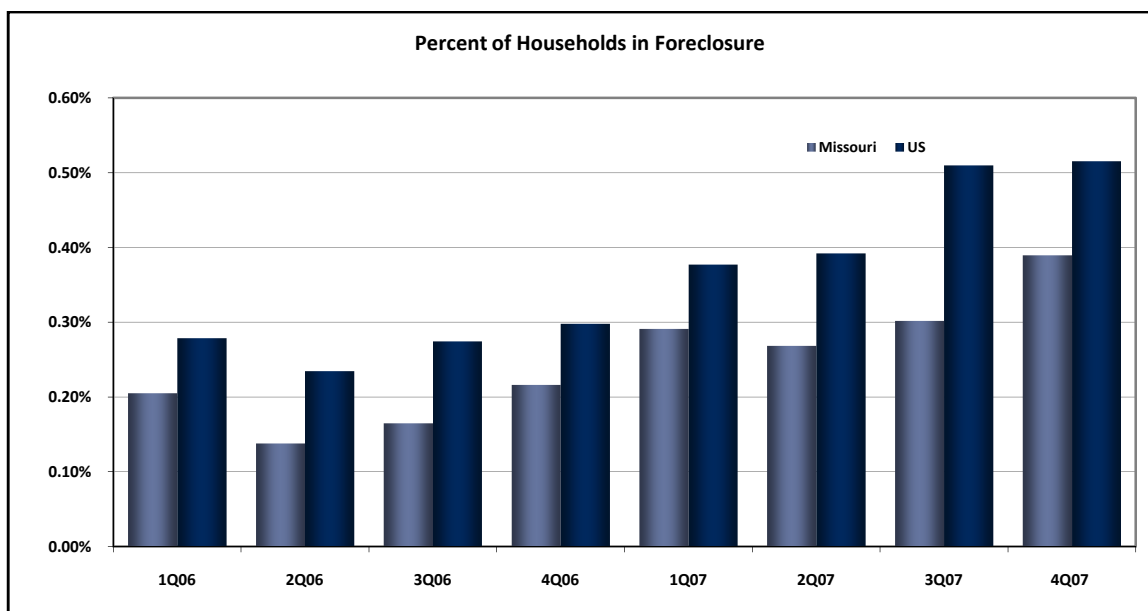
The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State is financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

ECONOMIC CONDITION AND OUTLOOK

State Economy

Missouri's economy is diversified and often follows the trends of the U.S. While Missouri's economy was growing in 2007, Missouri and the U.S. have seen an economic slowdown in 2008. Previously Missouri had not experienced the decline in the housing market to the extent of the rest of the nation, however, the troubles in the housing sector have begun to spill over into other industries.

Foreclosure rates in Missouri have been rising similarly to the national rate throughout the housing crisis but remain lower than the U.S. average. In Missouri, there were 32,022 foreclosure filings in 2007, or about one of every 81 households in the state. On average in the U.S., one of every 57 households was in foreclosure last year. Only 1.5 percent of the nation's foreclosures over the year were in Missouri.



Source: Missouri Economic Research and Information Center/RealtyTrac

Missouri's personal income, which directly impacts individual income tax and sales tax, rose at a 5.6% rate during calendar year 2007. Per capita personal income has grown more rapidly than inflation and Missouri ranked 16th in personal income growth in the second quarter of 2008. Along with higher personal income, Missourians also enjoy the fifth lowest cost of living in the United States.

Through the end of June 2008, exports by Missouri companies totaled \$6.5 billion, compared to \$6.8 billion after the second quarter of 2007. This is particularly good news for the State's businesses because Missouri set a record for exports in 2007 with \$13.4 billion in total global sales.

Long-Term Financial Planning

Missouri's funding priorities include education, health care, public safety, and economic development. Continued efforts within State government to provide more efficient and effective customer service while using fewer administrative resources will save money that can be used to improve various State services.

Missouri also has a long-range plan to improve highways and bridges and is exploring options for funding the improvements through fuel tax revenues and sales taxes on motor vehicle sales. The national credit market disruption has forced a change in plans to use private financing to make improvements to 802 bridges in Missouri. The Missouri Highways and Transportation Commission decided to issue its own bonds to pay for the work, which it intends to finish in five years. The repairs are estimated to cost \$700 million. The debt will be repaid with a portion of the federal bridge money received each year.

In March 2008, an agreement was signed to promote trade in Missouri. The agreement was designed as a preliminary step toward turning St. Louis into a trade hub with China. Increasing trade between Missouri and China by 50 percent over the next three years is the target created by the agreement. The increase is aimed mostly toward high-tech manufacturing and agriculture, particularly beef. In 2007, exports to China increased by approximately one-third to more than \$1 billion.

Relevant Financial Policies

Article X of the Missouri Constitution imposes a limit on the amount of taxes that may be imposed by the General Assembly in any fiscal year. This limit is tied to total State revenues for each fiscal year and adjusted annually based on a formula which is tied to increases in the personal income of Missouri for certain designated periods. If the revenue limit is exceeded by 1% or more in any fiscal year, the excess revenue will be refunded based on the liability reported on state income tax returns. If the excess revenue collected is less than 1% of the revenue limit, the excess revenue shall be transferred to the General Revenue Fund.

The revenue limit can be exceeded by a constitutional amendment adopted by the people or if the General Assembly approves, by a two-thirds vote, an emergency declaration by the Governor. The State has refunded money to income taxpayers for fiscal years 1995 through 1999, but has not exceeded the revenue limit in fiscal years 2000 through 2008. The State does not expect the limit to be exceeded in fiscal year 2009.

Major Initiatives

Missouri will continue to focus on controlling increasing costs through various cost-effective alternatives and streamlining government functions. Funding priorities are focused in the areas of education, health care, public safety, and economic development.

Education. Funding for education remains a top priority for Missouri. A revision of the school funding formula was approved in 2005 and is being phased in over a seven year period, which began in fiscal year 2007. The fiscal year 2009 budget includes a \$121 million increase for public education as part of the revision to the school funding formula. The fiscal year 2009 budget also includes \$5 million to create 100 technologically advanced classrooms and to equip 300 classrooms with advance math, science, and health and wellness curriculum; \$54.2 million increase for Missouri's public two and four year colleges and universities; and \$100 million for the Access Missouri scholarship program for need-based scholarships for Missouri students.

Health. Funding for MO HealthNet for fiscal year 2009 is \$5.8 billion, an increase of \$420.4 million over fiscal year 2008. This increase includes expanded health care coverage for children and low-income women. MO HealthNet provides health care coverage to some of the state's most vulnerable citizens. The number of individuals in Missouri without health care coverage is rising. In Missouri, from 2001 to 2005 the number of employers offering health insurance to their employees declined 10.1 percent, individuals under age 65 with private insurance declined 8.5 percent, and individuals under the age of 65 without any insurance coverage increased by 29.8 percent – the fifth highest increase in the U.S. The Missouri legislature has considered initiatives to help insure uninsured Missourians, but legislation has yet to be passed.

Public Safety. Last year, Missouri led the nation in improved highway safety. The Smooth Roads Initiative (SRI) was completed a year early and an additional \$359 million was made available through the initiative which resulted in significant improvements in pavement conditions. Missouri Department of Transportation (MoDOT) currently reports 78 percent of Missouri's major highways to be in good condition, up 46 percent from the beginning of SRI in 2004. Missourians now travel on smoother, safer roads throughout most of the State. This turnaround fuels job creation, supports tourism and ensures that Missouri families have the transportation system they need. The State has made significant improvements in safety. Traffic deaths in Missouri are down 21.2 percent in 2007 compared to 2005 and the downward trend is continuing.

The fiscal year 2009 budget includes an additional \$483 million for road construction projects. However, in 2010 decreased funding will present a challenge for MoDOT. There is a significant gap between transportation needs and projected funding. The new Better Roads, Brighter Future Initiative will result in 5,600 miles of major roads with smooth pavement; brighter, wider striping; larger signs; rumble strips; and, in most cases, a minimum four-foot paved shoulder by 2012.

Economic Development. September 2007 marked the inaugural Tour of Missouri bicycle race, giving Missouri the opportunity to showcase the State to an international audience. Over six days some of the world's top athletes covered 600 miles of the State. One million dollars was committed to bringing the Tour of Missouri to the State. The race surpassed all expectations and demonstrated its value and benefits, generating an estimated \$26.2 million in new tourism dollars.

In addition to the Tour of Missouri, increased funding for economic development and the environment in fiscal year 2009 included \$5.9 million for life sciences research, \$36 million for improvements to state conservation areas, and \$15 million for incentives to produce biodiesel fuels.

AWARDS

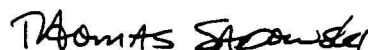
The Missouri Accountability Portal (MAP) is an online database of financial records that can be accessed in real-time. During fiscal year 2008, Missouri's Information Technology Services Division Team won an American Business Award for the development of the MAP site for their achievement in government transparency.

ACKNOWLEDGEMENTS

While the Office of Administration, Division of Accounting, is responsible for the contents of this report, no one division could do it alone. Many people were involved in the compilation of materials necessary to complete the report.

We want to issue a special thanks to all the personnel at the State agencies who provided us with information quickly and accurately so that we could issue the CAFR in a timely manner. We also owe thanks to the professionalism and dedication demonstrated by technical and management personnel within the State Auditor's Office, the State Treasurer's Office, Office of Administration, Information Technology Services Division, and the State Printing Center. We are greatly appreciative to all.

Sincerely,



Thomas Sadowski, CGFM, CPA
Director